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## **Energy in the contemporary world and international energy policy**

*Stanislav Zhiznin*

### **RUSSIAN ENERGY DIPLOMACY AND INTERNATIONAL ENERGY SECURITY (GEOPOLITICS AND ECONOMICS)**

*This article considers national energy security as a component of foreign policy and diplomacy and analyses the current state of Russian energy policy, the role of Russia in global energy geopolitics and the factors affecting it. The author examines energy diplomacy as an instrument of foreign policy at both global and regional levels taking into account the changes in the corporate policy of energy companies.*

**Key words:** global energy, international relations, energy security, geopolitics, global energy diplomacy, regional energy diplomacy.

For many countries throughout the world, energy is a key industry in terms of economic, political, and social aspects. Thus, it is closely supervised and strictly regulated by the government, regardless whether a company is state or private owned. National security in general and its economic component in particular are contingent on the situation in the energy industry. It results in the special attention of governmental bodies to the issues of energy security. The increasing internationalisation and globalisation of energy as well as the increase in the energy interdependence between some countries proves the thesis that national energy security cannot be ensured without the solution of international energy security problems at regional and global levels. Since the beginning of the century, the development of global energy has been affected by two processes. On the one hand, there is growing competition in world energy markets between its key players – energy companies supported by the governments of their countries of operation and by associations of these countries. On the other hand, the intergovernmental interaction and regulation in the sphere of energy are becoming more intense, which encourages the development of the centres of global and regional energy policy. One of the reasons for interaction is related to the intention of major energy players to avoid chaotic uncivilised competition and be able to allow for new risks and threats to energy security. Russia stands for closer international energy cooperation and development of new international legal instruments to regulate it. This is the essence of the proposals put forward by the president of Russia Dmitry Medvedev in April 2009. In my opinion, it concerns the development of the architecture of international energy security. What role can Russia play in this process in view of its standing in global energy and energy geopolitics and its relations with the leading institutions of international energy security?

**Energy security and diplomacy.** After the energy crises of the mid-1970s, a number of countries developed functional lines of foreign policy aimed to provide national energy security: external energy policy and energy diplomacy. Global energy security is commonly understood as a long-term,

stable and economically appropriate provision of the optimal combination of different types of energy that ensures sustainable economic and social development of the world and inflicts minimal damage on the environment.

**Security of supply.** The interests of importing countries lie in the guaranteed long-term and steady supply of energy from external sources at reasonably low prices.

**Security of demand.** The interest of exporting countries is to guarantee financial inflow as a result of selling energy products at reasonably high prices. International experience shows that the interests of importing and exporting countries, first of all, those concerning prices do not always coincide.

**Transit security** is closely connected with the interests of transit countries that lie in making maximum profit from offering transit services involving the transportation of energy through their territories.

Over the last years, the problem of energy security has come to the fore in the framework of multilateral global and regional international forums. Energy related discussions usually focus on the reliable supply of energy resources devoid of interruptions, including those caused by industrial disasters or breakdowns. The threat of terrorist attacks on energy infrastructure facilities leads to stricter requirements for the physical access security systems. Instability in a number of world's leading oil-producing regions makes it crucial to focus on the diversification of energy supply, energy transit, and means to prevent energy sources from being used as a tool of political blackmail. Energy security depends to a large extent on the situation in the increasingly global energy markets. Thus, special attention is drawn to the stability and predictability of these markets, which includes the dynamics of pricing environment as well as connections between goods, energy, and financial markets. It is worth mentioning that ecological factors have also become important aspects of energy security. In this connection, the condition of the raw materials base as well as oil, oil product, and gas storage capacities is increasing in importance.

**Russia in the world energy geopolitics.** World energy is increasingly influenced by geopolitical factors. Geopolitics is a fundamental concept of international relations theory that characterises the location and specific historical forms of the impact of spatial features of the position of states and blocs on regional, continental, and global international processes. Historically, the development of geopolitics as a political science is connected with research on the role of geographical factors, and among them, territory configurations and the position of a certain country in the region. These factors are used to explain the foreign policy of a country towards other countries situated, as a rule, in the same or a neighbouring region. It can be related to the access to the sea, navigable rivers, straits, mineral deposits, agricultural or industrial lands, etc. Scholars frequently use the term 'energy geopolitics', which lacks a single straightforward definition. The present work is based on our own definition of the term that encompasses the issues of field development and transportation of energy sources including the routing of pipelines alongside energy-related geographical factors.

Geopolitics is often connected with geoeconomics. From the scientific point of view, geoeconomics is an applied science that studies the conduct of states in a given situation, formulates its economic strategy and tactics in the international arena. Geoeconomics considers a broad spectrum of political-economic and geographic problems. Recently researchers have been frequently using the term 'energy geoeconomics', which, as well as 'energy geopolitics', has not been clearly defined yet. Further, we will understand 'energy geoeconomics' as a science that studies the foreign (economic) policy of a state aimed to gain an advantage by means of energy-related mechanisms in view of the need to ensure the balance of interests in the field of international energy security.

The late 20<sup>th</sup> – early 21<sup>st</sup> centuries saw rapid development of global energy and the significant expansion of energy, equipment, and services trade flows, which explains the topicality of the concept of geoeconomic problems of world energy system development. There are several groups of problems, the solution of which is crucial for both the energy strategy of concrete states and international energy security.

Firstly, these are the issues of energy source base development and its geographical position. They concern primarily the real situation around the largest proven and prospective reserves of traditional mineral energy resources (hydrocarbons, coal, uranium ore) as well as water power in terms of the economic efficiency of their development and the supply of products to principal markets. Moreover, there are certain economic problems of the development of deposits of non-traditional hydrocarbons (extra-heavy oil, oil-bearing shale and sands, shale gas, gas-hydrate, etc). In future, those states may gain advantage that have a base for the large-scale and economically efficient development of bio-fuel related industries and the deployment and operation of large photovoltaic module systems or wind power plants.

Secondly, these are the problems of energy transportation, mainly those connected with the marine transportation of oil, petroleum products, liquefied natural gas, and coal by means of existing and prospective transport infrastructures. Other important issues are the development of international oil and gas pipelines and the construction of transmission facilities for the transportation of electricity to consumer markets.

Thirdly, it is the problems of the development and introduction of modern technologies in the fields of production, transportation, and consumption of all types of energy. One should also take into account energy saving and energy efficiency technologies as well as those aimed to mitigate the environmental impact. The energy policy of a number of states, in particular, the USA and Japan, prioritises the production and export of modern energy technologies.

It is worth mentioning that the access to raw materials bases and the reliability of transportation routes directly define the energy security of certain states, which necessitates the integration of geopolitical and external economic issues. For instance, Japan is agreeable to extra expenses related to the supply of more expensive oil from Russia as well as to financing the pipeline from Eastern Siberia to the Pacific Coast in order to reduce depend-

ence on cheaper resources from the Gulf States. It should contribute to energy security, giving an opportunity to reduce the share of oil supplied from the politically instable region. The position of Japan coincides with the interests of Russia, since the development of oil transportation infrastructure in the East would not only enhance Russia's geopolitical and external economic standing in the region but would also give the state the status of a global player in the world oil market. At the same time, the interest that China takes in Russian oil supply contradicts the external economic and geopolitical interests of Japan.

Much is said about the instability of a unipolar world and its energy supply. International experience suggests that these concerns are justified. Peculiar mini-poles (EU, China, India) are being formed today. Of course, Russia with its nuclear missile potential, still being a strong and influential state, is also a pole of world energy. Nevertheless, we should mention that, in the 1990s, the geopolitical status of Russia, as well as its role in the shaping of international policy and economics significantly decreased. At the same time, given the decreasing role of military potential in Russian international standing, the increasing global significance of Russian energy can strengthen the country's foreign policy. In the foreseeable future, energy will remain the key factor of Russian geopolitical and external economic influence not only at the regional but also at a global scale. The efficient application of energy related instruments in foreign and external economic policies is of great importance for Russian interests in a unipolar world that virtually emerged after the collapse of the USSR. Russia's claims to the key role in the geopolitical space that is being formed in Eurasia can be justified by the following objective factors:

- world's richest deposits of energy resources and minerals, timber and water reserves, and fresh air form a unique area (one of the four remaining) capable of the ecosystem restoration;
- vast territory resource that contributes to the power of the state;
- the country situated in Eurasia is home to the main world's deposits of hydrocarbons and has access to the Pacific and Arctic Oceans, as well as to the Barents, Baltic, and Black Seas and shelves;
- the leading role of Russia in the Caspian and Central Asia regions;
- the experience in the exploration of the neighbouring Arctic that is expected to be home to large hydrocarbon deposits;
- strong energy infrastructure, the further development of which can strengthen the country's geopolitical standing in Eurasia as one of the centres of world energy;
- considerable industrial and intellectual potential in the field of energy;
- large energy companies, the international significance of which is considerably increasing.

These factors allow one to suppose that an intelligent energy policy will help Russia enhance its economic and political standing in the world in general and Eurasia in particular so that the country can considerably contribute to energy security both at global and regional levels. Obviously, in the nearest future, it will be connected with the development of hydrocarbon deposits and the transportation of hydrocarbons. In the long run, learning by international experience, Russia can become a leader in the field of cutting edge energy technologies.

**Global centres.** The multilateral cooperation of net importing, net exporting and transit countries is developing in the framework of global and regional international energy organisations, despite the difference in the interests of these states. Furthermore, the activity of such international organisations is influenced to a great extent by leading multinational corporations.

According to international practices, intergovernmental organisations should have an international founding agreement and standing bodies and respect the sovereignty of member states. Moreover, there are supranational organisations aimed at the integration of member states. International organisation can have general and special power. The key 'command' centres dealing with international energy security are shown in the picture.

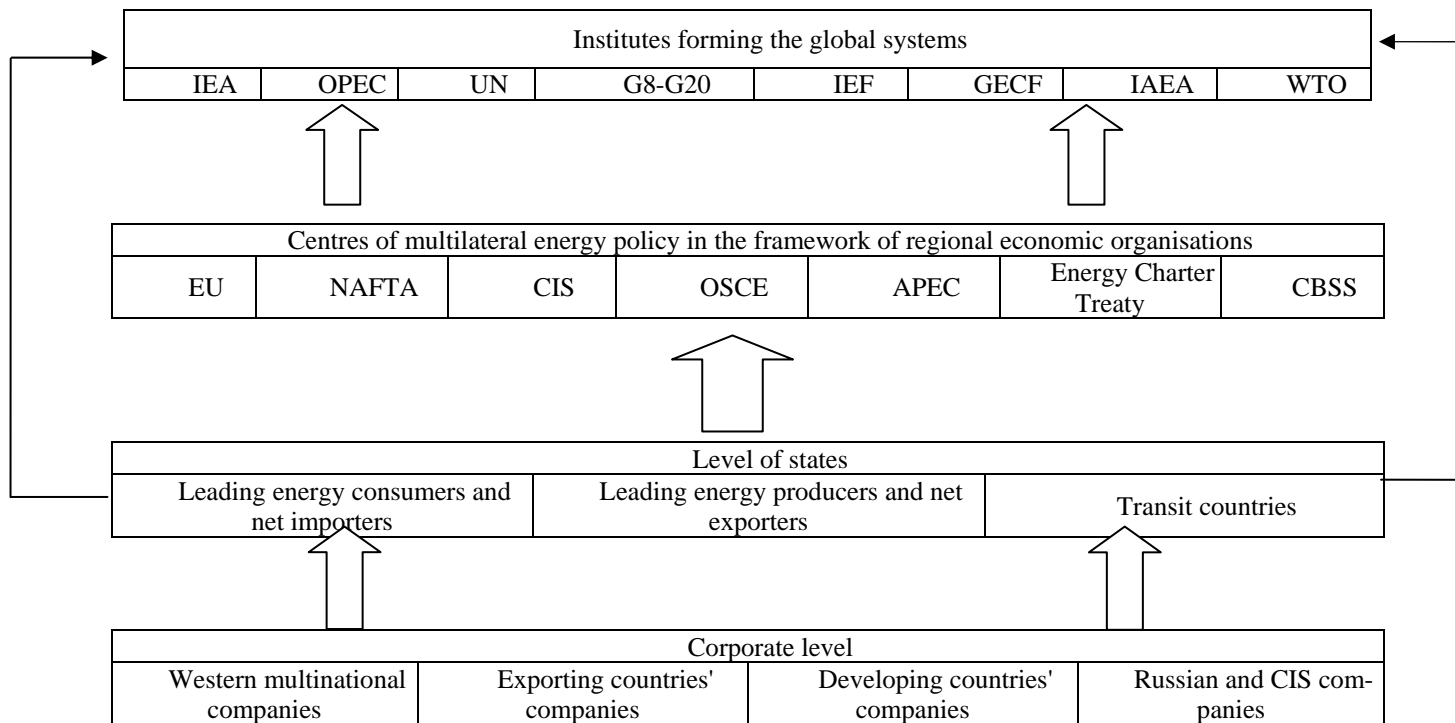


Fig. 1. Contemporary architecture of international energy security  
Source: Centre for Energy Diplomacy and Geopolitics

The UN stands out among other organisations that exercise general power and pay special attention to global economic (including energy) problems. First of all, it deals with planet-scale environmental problems. This was reflected in the UN framework convention on climate change that was adopted by more than 160 states at the conference in Rio de Janeiro, which was followed by the Protocol on climate change signed in 1997 in Kyoto (Japan). Today, the process of the development of the institutions and the international legal framework for the world climate policy, which is immediately connected with global energy, is underway. It is worth mentioning that, in the 1970s, a number of states stood for the establishment of a world energy organisation under the auspices of the UN.

OPEC and IEA should be distinguished among global organisations that fall under the categories of either intergovernmental organisations exercising special power or industry-related ones. They underwent typical stages of the establishment of an international organisation: the adoption of founding documents, creation of a resource base, establishment of executive bodies. The organisation of petroleum exporting countries was created as a permanent intergovernmental association according to the resolutions of the Conference of the leaders of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela held in Baghdad on September 10-14, 1960. The founding agreement signed in Baghdad and ratified by the founding countries formulated the basic provisions of the organisation's statute. OPEC, which was later joined by new members, operates under the Statute that was supplemented by a number of new provisions adopted at ministerial conferences. OPEC is an international legal entity. The principal aim of the organisation is to protect the interests of petroleum exporters in terms of petroleum demand security.

The International Energy Agency (IEA) was established in accordance with the intergovernmental agreement (International energy programme) adopted by the founding states in 1974 on the basis of the recommendation of the conference of the ministers of foreign affairs of 23 developed countries held in Washington and the long-term cooperation programme adopted in 1976. The IEA has the status of an autonomous organisation in the framework of the Organisation for Economic Co-operation and Development (OECD) founded in accordance with the Convention adopted in Paris in 1960. Only OECD member states can join the IEA. The principal activities of the IEA were formulated in the 'Shared Goals' adopted at the conference of ministers of energy of the member states in Paris in 1993. The IEA is an international legal entity. Its principal target is to protect the interests of importers in the field of the supply of petroleum and other energy resources.

Russia is not a member of either OPEC or the IEA; nevertheless, it closely cooperates with both organisations, also in the field of energy security.

Certain opportunities to develop a legal framework for the cooperation between gas exporting countries can arise on the basis of the Gas Exporting Countries Forum (GECF) founded at the ministerial meeting in Moscow in December 2008 (the organisation is regulated by a charter approved by this meeting).



The relations between the producers and consumers of energy are the focus of the International Energy Forum, an informal international institution that holds biannual ministerial meetings. Russia also takes an active part in the work of the IEF. On its initiative, the problems of global energy security are more often and more extensively discussed at the meetings G8 and G20 – influential informal clubs of world's leading states.

**Regional energy diplomacy.** Regional multilateral and bilateral cooperation in energy takes place in the framework of regional economic organisations and rests on a corresponding international legal framework. The most elaborate base was developed in the EU. To date, a complex of industry-related legislative acts and legal provisions has been created in the EU, which allows us to speak about the formation of the European energy law. The EU has prepared an institutional basis for the implementation of an integrated energy policy that is primarily aimed at the security of the supply of energy from external sources. The Energy Charter Treaty (ECT), the implementation of which should set a basic organisational and legal framework for multilateral cooperation in energy in Eurasia, plays an important role in achieving this goal.

Negotiations on different issues continue in the framework of the Energy Charter Conference. The Conference, an international organisation per se, coordinates the implementation of the provisions and other documents of the Charter. It is important to mention that both the Charter and the ECT contain provisions that are aimed to ensure transit security; their specification is being discussed in negotiations towards the Transit protocol. The ECT comprises a number of constructive provisions. At the same time, the January crises of 2009 triggered by the interruption to gas supply from Russia via Ukraine revealed the incapacity of the ECT tools to solve the arising problems. Obviously, the uninterrupted operation of contemporary international transit systems could be significantly improved by the development of new international legal norms. Recently various OSCE, CBSS and BSEC forums have been focusing on the political and economic aspects of energy security.

The regional priorities of Russian energy diplomacy suggest that the measures to improve the state's standing in the European region, the principal market for Russian gas and petroleum, should be supplemented by active steps in increasing export flows both in the East and South. Russian energy strategy is aimed at the large-scale involvement of the hydrocarbon resources of Central Asian CIS countries, including the Caspian region states, into its energy balance. In this connection, one of the priorities of Russian diplomacy is the support to a number of major oil and gas projects including the construction of new strategic pipelines.

Russia has paramount interests in many European countries. Predominantly, they concern marketing development, entering the sales segments of oil and gas business, attracting investment, and settling the transit issues. A number of European countries are, in their turn, major equipment suppliers for Russian energy and, at the same time, potential capital exporters for Russian energy industries. These factors led to the beginning of the EU-Russia energy dialogue in the year 2000, which turned into an inalienable element

of regular negotiations conducted on the basis of the EU-Russia summits. The cooperation on these issues is moving from the field of politics to that of business due to the initiative on the establishment of an EU-Russia business energy forum meant to bring together the major players of the Russian energy industry and leading European fuel companies. Simultaneously, Russian diplomacy pays special attention to the issues of bilateral cooperation in energy with individual EU countries. Here, one should mention the successful development of a number of projects with France, Great Britain, Italy, Germany, the Netherlands, Finland, Sweden, etc.

Russia emphasises the importance of the development of multilateral energy cooperation in the framework of the Council of the Baltic Sea States (CBSS), in particular, at the regular meetings of the CBSS energy ministers. The opportunities and prospects of the implementation of mutually beneficial projects were addressed at the fifth meeting of energy ministers in Copenhagen in February 2009.

A number one priority of Russian diplomacy is the promotion of efficient energy cooperation in the post-Soviet space. The energy factor plays a crucial role in Russian multilateral diplomacy in the CIS, the Union State of Russia and Belarus, and the Eurasian Economic Community (EurAsEC). The legal framework for the bilateral energy cooperation with former Soviet republics is various long-term agreements. Russian energy diplomacy is aimed to reach mutually beneficial and viable solutions of the problems that resulted from the transition of energy supply and transit to the CIS partners to the market basis.

Russian energy interests in the Caspian region are closely connected with the geopolitical interests of the states of the region as well as with the interests in the field of transport and other economic fields. The relations between Russia and the exporting states of the Caspian region and Central Asia are dominated by the issues of the development of cooperation in transit and transportation of Caspian oil and gas resources to major markets as well as by the definition of the legal status of the Caspian Sea. Russia supports the idea of the establishment of the Caspian Economic Cooperation Organisation (CECO) that would focus on the implementation of multilateral energy projects.

Another favourable region for Russian energy diplomacy is the Pacific Rim in view of the economic growth and the increase in energy consumption expected in this region. Energy is the crucial element of Russian relations with the Pacific Rim states in the framework of the Asia-Pacific Economic Cooperation (APEC) and the Shanghai Cooperation Organisation (SCO). Some Pacific Rim states may invest in the exploitation of resource potential of Russian Far East and Eastern Siberia. In turn, the development of the energy industry would contribute not only to the solution of acute socio-economic problems but also to the development of the energy and industry infrastructure as well as to the strengthening of Russian economic and geopolitical standing in Asia. In this aspect, Russia places emphasis on the implementation of the Sakhalin projects and the development of East Siberian oil and gas fields.

Of all importing states of the Pacific Rim, the most solid political and legal framework for energy cooperation is forming with China. An energy dialogue is developing with India, Japan, and Southern Korea. Among exporting countries, Indonesia, Vietnam, and Malaysia seem to be the most promising partners.

In general, the energy factor plays the most important role in the system of the bilateral economic and political relations between Russia and more than 90 countries. The USA is one of the importing countries, the bilateral relations with which are a priority of Russian diplomacy. Here, one should mention the positive influence resulting from the 2002 energy dialogue, which has recently come to a standstill. Its further development is of great importance for the stability and predictability of world energy markets at a global level as well as for the balance of interests in the framework of both economic and geopolitical issues.

Among other importing countries, Russia's bilateral relations with which include energy interests, are the CIS and Baltic Sea states, Turkey, Central and Eastern European countries, and the Pacific Rim – first of all north-eastern Asian – states.

Addressing bilateral energy cooperation with exporting countries, it is important to mention Norway, a major gas and oil supplier and exporter in Western Europe. Recently the energy factor has been playing an increasing role in the relations with Algeria, Egypt, as well as with a number of Latin American states, primarily, Venezuela and Mexico.

**Corporate aspects.** Analysing the key reasons for the strengthening cooperation in the world's energy business, one cannot but mention that, since the 1970s energy crises and its recurrences in the early 1980s and 1990s, the relations between the major consumers and suppliers of energy have promoted mutual understanding concerning the inadmissibility of chaotic, mutually destructive competition that excludes victory. It has become obvious that the leading energy companies, both private and public ones, are interested in the stability and predictability of energy markets as well as in the avoidance of wild price fluctuations. Thus, the interaction and cooperation are getting more effective and economically profitable both in the relations between energy corporations and between them and the governments of the countries of their incorporation and operation.

So, the 'corporate' diplomacy moved away from the old approach aimed at the victory over the other side. The increased interdependence in the field of energy formed the approach based on the belief that diplomacy is a means to encourage the development of a company and improve its financial and economic performance. Such diplomacy seeks to reach a mutually acceptable compromise between the competitors that, at the same time, are forced to be partners, since the defeat, destruction, and elimination of one of them adversely affects the other. Therefore, a compromise is advantageous for all parties that try to achieve understanding and agreement.

The analysis of the situation in the world's energy business requires paying attention to the fact that, despite the differences in the interests of its leading agents, their relations mostly evolve into strategic cooperation. Its

approaches and methods developed on the basis of game theory can be expressed by the assumption that the actions performed by an individual member of a group depend on or result from the choices of other members of the group. This theory operates with the notions of private, or individual, and collective good. For instance, the increase in prices initiated by oil exporters in pursuit of more profit, the reduction of oil production quota or the interruption of supply aimed at shortage in the oil market in order to significantly raise the prices (individual good), are directly connected with the long-term consequences affecting the global system of oil supply and the world economy, which is fraught with major damage not only to the importing countries but also to the exporting ones. Strategic cooperation in the field of energy is exceptionally important due to the growing interdependence and the need to ensure energy security at both a global and regional levels.

Energy security is largely defined by the situation in the world energy markets that are becoming increasingly global. These days, the ongoing development of a competitive environment is resulting in the further increase in the activity of international companies within it as well as in the growing competition.

**Russian initiatives.** In the conditions of dramatic changes that have recently occurred in the world energy arena and new threats to the stability of energy markets and energy security, the need for the radical improvement of the existing legal framework for energy cooperation has become obvious. The Russian side consistently supports the creation of a new architecture of energy security that would meet the interests of all parties. As we know, in 2006, during its G8 presidency, Russia initiated the adoption of documents on the principles of global energy security at the Saint Petersburg summit. The G8 leaders approved the action plan aimed at the solution of related international problems.

In April 2009, in furtherance of these initiatives, President Dmitry Medvedev suggested producing an international legally binding document that would cover all aspects of global energy cooperation and proportionally reflect the interests of the major players in the world energy market. A document entitled "The Conceptual Approach to the New Legal Framework for Energy Cooperation (goals and principles)", the elements of the transit agreement (its inalienable part would be an agreement on the resolution of arising conflicts), as well as the List of Energy Materials and Products that will be included in the prospective agreement, were forwarded to the leading energy organisations and states. Russian leaders believe that the future system of legislative acts in the field of energy should be universal, equal and non-discriminating towards all participants of energy cooperation; it should also include an efficient common implementation mechanism and specify procedures to overcome emergency situations. These documents emphasise the acknowledgement of the commonality of the problems of global energy security and the interdependence of all participants of world's 'energy circulation', and the shared responsibility of consumer, supplier, and transit states for the provision of global energy security.

The initiatives of Russian leaders drew attention of a number of states and international organisations. The practical promotion of these initiatives implies their development on different global and regional arenas as well as in the framework of bilateral relations with the leading states in the field of energy in order to draw up corresponding international agreements. In this connection, the issues of the active participation of Russian and overseas energy companies in the setting of the new legal framework for the provision of energy security is rising in importance. Of particular significance is the practical experience of cooperation between Russian and international business in the implementation of major projects that have considerable influence on European energy security (Nord Stream, South Stream, Burgas-Alexandroupolis, BPS, etc.).

### **Conclusions**

Energy diplomacy, which has already become an acknowledged instrument of the implementation of corresponding political platforms, employs both traditional organisational forms and specific mechanisms. Its particularities determine the object of international legal regulation. The analysis of the documents drawn up in the field of energy diplomacy places emphasis on the establishment of a new branch of international law – international energy law that should rest upon the legal tools of international energy security including those related to the development of its architecture as well as to the regulation of the interaction between the key 'command' centres of energy policy. A significant contribution can be made by the practical implementation of Dmitry Medvedev's initiatives that are aimed at the development of the principles of a new legal framework of global energy cooperation in view of the experience of the implementation of the ECT documents and approaches specified by the G8 Declaration and Action Plan on the provision of global energy security approved at the Saint Petersburg summit in 2006.